

2001 Country Reports on Economic Policy and Trade Practices

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FRANCE

Key Economic Indicators 1/

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 (est)
<i>Income, Production and Employment:</i>			
Nominal GDP	1,383	1,237	1,314
Real GDP Growth (pct)	3.0	3.1	2.3
GDP by Sector (previous year prices): 2/	1,318	1,187	N/A
Agriculture	39	34	N/A
Manufacturing	331	302	N/A
Services	680	613	N/A
Government and Non-Profit Services	268	239	N/A
Per Capita GDP (US\$)	23,858	21,355	21,900
Labor Force (000s)	25,983	26,155	25,839
Unemployment Rate (pct average)	11.0	9.5	8.9
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M3) 3/	7.3	7.6	7.9
Consumer Price Inflation (average)	0.5	1.7	1.7
Exchange Rate (FF/US\$ - annual average)	6.2	7.1	7.3
<i>Balance of Payments and Trade:</i>			
Total Exports FOB 4/	302	299	296
Exports to United States 4/	23	26	24
Total Imports CIF 4/	285	308	301
Imports from United States 4/	26	29	25
Trade Balance CIF/FOB	17	-9	-5
Balance with United States 4/	-3	-3	-1
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	1.6	1.4	1.4
Current Account 4/	37	21	19
Current Account Surplus/GDP (pct)	2.6	1.6	1.5
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves 5/	71	68	72
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

1/ Embassy estimates based on published French government data unless otherwise indicated.

- 2/ GDP excludes Value Added Tax (VAT) and other taxes.
- 3/ 2001 figure reflects M3 as of July.
- 4/ 2001 estimate based on seven months.
- 5/ 2001 estimate based on eight months.

1. General Policy Framework

France is the fifth largest industrial economy in the world, with annual gross domestic product about 15 percent that of the United States. France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the ninth largest trading partner of the United States and the third largest in Europe (after Germany and the United Kingdom). According to U.S. Department of Commerce data, U.S. merchandise exports to France increased by 7.3 percent to \$20 billion in 2000, while merchandise imports from France grew 15.8 percent to \$30 billion, according to the same source. This resulted in a U.S. merchandise trade deficit with France of about \$7 billion. French trade data account differently for re-exports and transshipments via neighboring European countries, and as a result France reports a trade deficit of about \$1 billion with the United States in 2000. Trade in services is expanding rapidly. In 2000, it added about \$2 billion to the total volume of trade between the United States and France. The United States and France are the world's top two exporters in several important sectors, including defense products, agricultural goods, and services.

France's annual real GDP growth rate in 2001 is projected to be about 2.3 percent according to French government estimates, following growth of 3.1 percent in 2000. Economic growth in the first two quarters of 2001 was disappointing. Growth has been domestic-demand led as export growth has been significantly affected by the economic slowdown in the United States and among France's European partners, notably Germany. The employment picture improved early in the year, but deteriorated during summer. The unemployment rate decreased to 8.7 percent in February, remained at this level until May, and began to rise in June, reaching 9 percent in August. Based on government projections the general government budget deficit should stay unchanged at 1.4 percent of GDP in 2001 compared with 2000. Current indicators, notably business and household confidence, show the economic situation deteriorating. International factors, notably effects of September 11 attacks in the United States, are now creating further downward risks to GDP growth. Independent French economists forecast annual growth at about 2 percent in 2001 and to 1.8 percent in 2002.

Considerable progress has been made over the past decade on structural reforms. However, additional efforts will be necessary for France to achieve its full economic potential. Prime areas for reforms identified by international organizations include continued reductions of taxes and government spending, increased flexibility of labor markets, and further deregulation of goods' and services' sectors. Further progress will depend on policies adopted by the government formed after legislative and presidential elections next year, and its room for maneuver.

With exports and imports of goods and services each accounting for about 25 percent of GDP, France's open external sector is a vital part of its economy. The government has encouraged the development of new markets for French products and investors, particularly in Asia and Latin America. It especially seeks to promote exports by small and medium-sized firms. Foreign investment, both inward and outward, also plays a very important role in the French economy, helping generate employment and growth. With about 20 percent of the total, U.S. investment accounts for the largest share of foreign direct investment in France. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors in France.

2. Exchange Rate Policies

France adopted the euro currency as of January 1, 1999. Responsibility for exchange rate policy is shared between national finance ministries and the European Central Bank.

3. Structural Policies

Over the past decade, the government has made efforts to reduce its role in economic life through fiscal reform, privatization, and the implementation of European Union liberalization and deregulation directives. This has produced a slow but progressive opening of telecommunications and electricity markets, and re-structuring of state-owned defense firms. Nevertheless, the government remains deeply involved in the functioning of the economy through national and local budgets, remaining state holdings of major corporations, and extensive regulation of labor, goods, and services markets. This can sometimes result in a lack of transparency in the making of decisions that affect U.S. and other firms. While U.S. and foreign companies often cite concerns about relatively high tax rates on business, particularly payroll and social security taxes, state action does not discriminate against foreign firms or investments. There are very few, generally clearly defined exceptions, such as those notified to the OECD under its investment codes.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. A member of the group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank, and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in north and sub-saharan Africa. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

5. Significant Barriers to U.S. Exports

In general, European Union agreements and practices determine France's trade policies. Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions (irrespective of EU policy) that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry, meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; exotic meats (e.g., ostrich, emu and alligator); and live crawfish unless authorized by special agreement. Current regulations discriminate against imports of bovine semen and embryos from the United States by strictly controlling their marketing in France.

The French government established a policy on applications of biotechnology in agriculture and food production in 1998 that has restricted imports and production of goods made with transgenic materials or processes, principally corn, soybeans, and derived products.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France strictly applies quotas mandating local content. A 40 percent domestic content requirement for music, excluding classical music and jazz, broadcast by French radio stations mandated by a 1994 law was lowered to 35 percent in 2000. Continuation and growth of a strong French motion picture and television industry is a government priority.

Government efforts to balance the national social security health care budget continue to target (via price/volume agreements, reduced reimbursement rates, taxes, and slow approvals) products brought to the market by research-based pharmaceutical firms and health equipment firms. The U.S. health equipment and research-based pharmaceutical industries continue to press the French government for more transparency in government regulation.

In October 2001, the United States and France amended the 1998 bilateral civil aviation agreement to conform with all the necessary elements of an open skies agreement.

6. Export Subsidies Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. The French government has increased its export promotion efforts, particularly to the emerging markets in East Asia and Latin America. These efforts include providing information and other services to potential exporters, particularly small and medium-sized enterprises.

Support of the agricultural sector is a key government priority. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. French government subsidies to agricultural production are primarily indirect. France strongly supports continued EU export subsidies. The government offers indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

In April 2001, the European Union notified the United States that France and several other Member States had made commitments to provide development support for the Airbus A380 (super-jumbo) aircraft. In addition, the French government and local authorities in Toulouse announced in 2001 publicly funded projects valued at more than \$270 million to provide infrastructure improvements related to the production of the A380 at Airbus facilities in France.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

8. Worker Rights

a. *The Right of Association:* The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The government regularly consults labor leaders on economic and social issues, and joint work councils play an important role even in industries that are only marginally unionized.

b. *The Right to Organize and Bargain Collectively*: The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local, and plant levels.

c. *Prohibition of Forced or Compulsory Labor*: French law prohibits antiunion discrimination and forced or compulsory labor.

d. *Minimum Age for Employment of Children*: With a few minor exceptions for those enrolled in apprenticeship programs or working in the entertainment industry, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work*: The current minimum wage is FF 42.02 per hour (about \$5.60). Since February 2000, the legal workweek is 35 hours for firms of 20 or more workers. Firms with fewer than 20 workers will have until January 2002 to reduce their workweek to 35 hours. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. *Rights in Sectors with U.S. Investment*: Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,010
Total Manufacturing	16,515
Food & Kindred Products	3,387
Chemicals & Allied Products	3,742
Primary & Fabricated Metals	3,800
Industrial Machinery and Equipment	1,330
Electric & Electronic Equipment	1,242
Transportation Equipment	594
Other Manufacturing	2,419
Wholesale Trade	2,558
Banking	1,823
Finance/Insurance/Real Estate	9,964
Services	5,537
Other Industries	1,680
TOTAL ALL INDUSTRIES	39,087

Source: U.S. Department of Commerce, Bureau of Economic Analysis.